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The Joint Stock Share System in China's Nanhai County

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The Rural Development Institute (RDI)*, located in Seattle, Washington, USA, is a nonprofit 501(c)(3) corporation. RDI is a unique organization of lawyers devoted to problems of land reform and related issues in less developed countries and in countries whose economies are undergoing transition. RDI's goal is to assist in alleviating world poverty and instability through land reform and rural development. RDI staff have conducted field research and advised on land reform issues in 35 countries in Asia, Latin America, Eastern Europe and the Middle East. For more information about RDI, visit the RDI web site at <www.rdiland.org>.*

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I. EXECUTIVE SUMMARY

In June 1999, with the cooperation of the Development Research Center (DRC) of the People's Republic of China State Council, two of the authors and RDI's China specialist, Li Ping, together with Yang Xiyu of DRC, conducted three days of fieldwork in Nanhai Municipal County to learn more about the County's rural land stock share system experiment. The team met with county, township, and administrative and natural village representatives for briefings and conducted extensive farm household interviews in four townships.

The Nanhai land stock share system experiment is called the "joint stock system" (JSS). The basic principle is establishment of joint stock companies (JSC) that hold the land assets (and frequently other non-land assets) of the administrative or natural villages. The village residents are the shareholders, and these shareholders receive cash dividends from the JSC. Among other reasons, the JSS was put forward as a vehicle for enabling scale farming.

The Nanhai rural land stock share experiment has been hailed by some as a model that might be replicated in other regions of China. The Nanhai experiment appears to be primarily about facilitating land use conversion and non-agricultural economic development. Given that a central goal of China's rural land policy is to protect and preserve agricultural land, it would be an error to view the Nanhai experience as unduly informing rural land tenure reform activities. However, several specific conclusions can be drawn about the Nanhai JSS and experimental reform efforts in general:

1. The Nanhai experiment is in direct conflict with the mandates and fundamental process set forth by the 1998 Land Management Law (LML). First, the experiment fails to provide, under contract, farmers with secure, 30-year use rights, as required by the LML. To the contrary, use terms have been shortened. Second, the experiment fails to limit the conversion of agricultural land to non-agricultural uses, as required by the LML. To the contrary, conversion has been a cornerstone of JSC operation. Finally, the experiment fails to seriously require JSCs to designate agricultural land as "basic" farmland, as required by the LML. The Nanhai experiment (and any other similar experiments) should be reconciled with the LML.

2. The Nanhai experiment provides no evidence that scale farming achieves any benefits over the cultivation of smaller plots. In fact, the only observed scale farm was not replicable and probably not sustainable. Administrative imposition of scale farming should be avoided, and transitions to larger and more-capital intensive farms should be gradual, voluntary, and market-driven.

3. Transferability of resources in response to healthy economic markets (but subject to reasonable public policy limitations, such as land use and preservation plans) should be nurtured. Market economies traditionally resolve resource imbalances by way of resource transfer among the holders of rights to the resources. Although some Chinese law allows for private transfers of land use rights, the insecure nature of these rights and lack of legal and institutional infrastructure to support such transfers has stymied the development of a market in rural land use rights. Constraints on transferability can serve to constrain the

efficient use of resources. Transferability of many resources in China should be made legal, and the certainty of resource value should be increased.

4. Local governments would probably benefit (over the long-term) from being candid about the intents and purposes of reform efforts. The credibility gained in the eyes of citizens (and the reduction of general skepticism) would likely outweigh the discrete effects of disagreement, debate, and modification. The actual reasons for and goals of reform should be candidly made public.

5. Planned public information, participation, and consensus efforts should be thoroughly and wholeheartedly implemented. Again, the benefits of credibility and public input would likely outweigh the costs of skepticism and dissent. More thorough participatory and consensus-seeking processes should accompany future reforms, and options for opting out should be made real and workable.

6. Detailed laws, regulations, and procedures should accompany the implementation of reform efforts. The existence of such laws will reduce inconsistency (and create efficiency-producing certainty), ease implementation, and reduce corruption. Most reform efforts would profit from meaningful reporting and monitoring requirements.

II. INTRODUCTION

Between 1979 and 1983, China made the dramatic transition from a socialist agriculture dominated by large collective farms to a more market-oriented agriculture dominated by small family farms. Over 854 million of China's people are engaged in farming -- one out of every three agriculturalists on the planet.[1] This decollectivizing land reform, known as the Household Responsibility System (HRS), improved the standard of living for nearly all of China's farm families. The HRS, under which land and crop production were contracted to individual households, was adopted by virtually every production team in China.[2]

In terms of land tenure and use, the four key features of the HRS were: (1) agricultural land was distributed more or less evenly among peasant households on the basis of family size; (2) decisions regarding use of the land devolved from the production team to the household; (3) collective ownership of land was maintained as a principal tenet; and (4) land use rights were given to farm households for a period of years. Some of the significant features of the HRS developed over the years following its creation.

In conjunction with the HRS, the commune as an administrative structure was eventually abolished and replaced by the township as the basic unit of government administration in countryside. With the reintroduction of the township (which had been abolished in 1962), China's rural economy moved further from coercive administration and toward greater reliance on economic incentives.

The HRS served to boost agricultural production and other aspects of rural development during the 1980s at a clearly extraordinary rate. This increased productivity, the additional economic activities that occurred in China's agricultural regions following HRS inception, and the significant shift to market-economy tenants by China's non-agricultural economy translated into extraordinary economic growth and rapidly rising incomes for both peasants and city-dwellers.

With this broad economic growth has come a demand for land for non-agricultural development. Throughout China, in rural areas adjacent to robust and growing population centers, the pressure for additional land upon which to site non-agricultural development has made the conversion of farmland to factory or commercial sites common. As well, this non-agricultural development has meant more jobs outside of agriculture for many of the farmers that live in these urban-fringe areas.

In response to this land development pressure and the changing employment market, as well as to a desire to explore administratively imposed larger-scale farming, some new, experimental forms of rural land use appeared in a limited number of areas during the HRS years. One of these new forms was the rural land stock share system that is the focus of this report.

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[1] UNFAO, *Production Yearbook* 1998 (Rome: UNFAO, 1999), 24.

[2] Huang Qinghe, "Review and Current Issues on the Rural Land Policy in China," paper presented at the Proceedings of the International Symposium on Rural Land Issues in China, September 1992, 8.

In light of the HRS success, but acknowledging that grain yields, total crop output, and peasant incomes have leveled off in recent years, the government began to search for new methods to continue the productivity improvements. The new Land Management Law (LML), which became effective on January 1, 1999, was seen as a major step toward meeting this challenge.

The LML potentially represents a quantum leap in China's system of rural land tenure security. If effectively implemented, it should provide Chinese farmers with the increased level of tenure security required to facilitate long-term productivity enhancing investments in their land, thereby increasing agricultural productivity and rural living standards. Effective implementation should also provide increased protection of arable land, ensuring that China's agricultural land base will be sufficient to meet the needs of increasing population and improving diets into the 21st century. Although in need of clarification, implementing regulations, and monitoring the LML has a number of positive features, including:

1. A rural land use contracting period of 30 years.
2. The requirement of a written land use contract that will inform farmers of the duration and breadth of their rights and provide greater assurance of those rights.
3. Limitations to readjustment of contracted landholdings.
4. A system of land use planning as the central element of a new strategy to restrict conversion of agricultural land to non-agricultural uses and ensure that the total area of arable land within the provincial level administrative district does not decrease.
5. A set of provisions governing enforcement of the new law and prescribing administrative or criminal penalties for units or individuals who violate the law.

It is in light of this history and framework that the RDI team sought to learn more about China's (now mature) rural land stock share system experiment. Section III describes the experiment's background in light of Nanhai's recent development history, and lays out the details of Nanhai's experiment. RDI's fieldwork findings are provided in section IV. Section V contains the analysis and recommendations that grew out of the fieldwork findings and RDI's comparative experience. Finally, section VI sets out some conclusions for the reader's consideration.

III. BACKGROUND

A. Introduction

In June 1999, with the cooperation of the Development Research Center (DRC) of the People's Republic of China State Council, two of the authors and RDI's China specialist, Li Ping, together with Yang Xiyu of DRC, conducted three days of fieldwork in Nanhai Municipal County to learn more about the County's rural land stock share system experiment. The team met with county, township, and administrative and natural village representatives for briefings and conducted extensive farm household interviews in four townships. The remainder of section II describes the situation leading up to the Nanhai experiment and the basic structure of the experiment. The description of the experiment is based on the briefings provided by county representatives. It should be compared with our fieldwork observations (discussed in section IV.B), which suggest that a number of the experimental features differ in actual practice.

The Household Responsibility System (HRS) was introduced into Nanhai in 1982 in response to the national momentum of rural reforms that decollectivized China's agriculture. Initially, collectively-owned land parcels in Nanhai were distributed in an egalitarian manner to individual farm households for their use. Under the HRS, Nanhai farmers obtained temporary use rights to the collectively-owned land (the initial term was similar to the initial terms seen throughout China during the start of the HRS), and, in return, they paid to the state an agricultural tax of 50 kilograms of grain per mu as a quota obligation. They were obligated to sell to the state an additional 250 kilograms of grain per mu as an above-quota obligation[3] at a price much lower than the market price.[4]

Private household farming on the land distributed to individual households (pursuant to the HRS) remained the main form of agricultural production in Nanhai until 1992, when an economic boom in southern China[5] created a huge demand for non-agricultural land. Land values increased significantly. The countys' and province's ability to convert land from agricultural to non-agricultural uses was restricted, however, both directly through land use controls and indirectly because each county was obligated to provide large amounts of grain to the state grain reserve each year. To ease the constraints on land supply, and with the approval of the central government, Guangdong Province ended in April 1992 the mandatory above-quota obligation throughout the province.[6] This change made it possible to use less land for growing grains and to provide more land for non-agricultural uses.

[3] These obligations were allocated to individual households based on the land they farmed. The aggregate of these obligations in a given county was the county's obligation to the province.

[4] The above-quota price was 30 to 50 percent lower than market price in the early 1990s. Interview with Liu Jiyun, Deputy Director of Guangdong Provincial Office of the Rural Reform Experiment [hereinafter Liu Interview] (June 1, 1999).

[5] In 1992, China's Deng Xiaoping called for further economic reforms during his famous southern trip, which had in turn attracted foreign investment.

[6] Tang Qihong, "On Overall Land Use Planning and Introduction of the Stock Share System [quanmian guihua tudi yinru gufen jizhi]," in THE RURAL LAND STOCK SHARE SYSTEM IN NANHAI CITY [Nanhaishi nongcun tudi gufen hezuo zhi lunwen ji] [hereinafter STOCK SHARE SYSTEM], 114, (June 1995).

In response to the new opportunities for non-agricultural economic development, Nanhai government decided to attract investments from home and abroad by offering investors access to arable land for non-agricultural uses. However, land takings by the state and collectives met strong resistance from farmers because they were reluctant to give up the land at the prices the takers offered.[7] Recognizing the strong non-agricultural demand for land and the limitations on the supply, the Nanhai municipal government decided in 1992 to experimentally introduce a land stock share system.[8]

The experiment focused upon taking land use rights back from individual households and consolidating the land into the collective. The collective then formed stock share companies and issued shares of the company to farmers based on household size. There were generally two types of stock share companies that took collectively owned land as assets. One was called a group company, which was established at the administrative village level. The assets of a group company consist of the collective cash reserve, assets of collectively owned Township and Village Owned Enterprises (TVEs), and land owned by all natural villages within the administrative village. The other form was the stock share cooperative, which was usually established at the natural village level. This type of company was formed in less developed areas where the collective had few assets other than land.[9]

Shares of a company, whether it was a group company or cooperative, were classified as collective shares and individual shares. Farmer households were only entitled to individual shares. These shares, which were allocated on an egalitarian basis, were actually a right to a portion of the company's profit. The shares were not transferable and therefore did not have any monetary value. The profit of the company, if any, would be shared between the collective and all farmer shareholders, with 51 percent going to the collective and 49 percent going to the shareholders as dividends.[10]

The land taken back by the collective was zoned for three uses: agricultural production, commercial/industrial development, and housing. Because of the demand, land for commercial/industrial development and residential use usually subsumed more than 50 percent of the total arable land in any given village.[11] Stock share companies built factories and warehouses in industrial development zones for their own use or for leasing out to others. The land in the residential zone was used for villagers' residences or auctioned to non-villagers by

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[7] Lin Haokun, "Exploring the Land Stock Share System in Rural Areas [tansuo yi tudi wei zhongxin de nongcun gufen hezuo zhi]," STOCK SHARE SYSTEM, *supra* note 6, at 33.

[8] Together with Shunyi of Beijing Municipality, Wuxi and Wuxian of Jiangsu Province, and Pingdu of Shandong Province, Nanhai was designated by the State Council in 1987 as one of four national rural reform experimental zones testing measures for large-scale farming. Du Runsheng, "Text of Speech Given at the Seminar on Land Stock Share System in Nanhai," STOCK SHARE SYSTEM, *supra* note 6, at 53.

[9] STOCK SHARE SYSTEM, *supra* note 6, at 39.

[10] Liu Interview, *supra* note 4.

[11] For example, in Xiabo village where the experiment was first introduced, of 4,660 mu of arable land, 2,300 mu (48 percent) was planned for industrial development, 750 mu (16 percent) for residential needs and 1,610 mu (36 percent) for agricultural production of rice, vegetables, fruits and aquacultural products. *See* Xiabo Party Branch, "Establishing a New System and Constructing a New Countryside [jianli xin jizhi jianshe xin nongcun]," STOCK SHARE SYSTEM, *supra* note 6, at 260.

the collective. Agricultural land was either farmed by the agricultural subsidiary of the stock share company itself[12] or was contracted to farmers through auction.[13]

The Nanhai land stock share system experiment is called the "joint stock system" (JSS). The basic principle is establishment of joint stock companies (JSC) that hold the land assets (and frequently other non-land assets) of the administrative or natural villages. The village residents are the shareholders, and these shareholders receive cash dividends from the JSC.[14] Among other reasons, the JSS was put forward as a vehicle for enabling scale farming.

B. The Details of Nanhai's Joint Stock System Experiment

The following details about the experiment are based on the briefings provided by county representatives. It should be compared with our fieldwork observations (discussed in section IV.B), which suggest that a number of the experimental features differ in actual practice.

According to Nanhai County representatives, the 1992 start of the JSS was prompted by a visit to southern China by Deng Xiaoping, the provincial government's abolishment of the quota system,[15] and the 14th Party Congress's call for a socialist market economy across China. The JSS was instituted in recognition that the old allocation of rights to land and other resources was inconsistent with the call for a market economy and that "a law of value" was needed to best manage the three resources present in the rural countryside (labor, land, and cash). Creation of the JSS was seen as a way to lift the burden from farmers of being required to grow grain and to allow the economic resource of land to be focused on other aspects of development. The land resource imbalance was due to the HRS egalitarian land distribution scheme and the lack of a developed rural land market. Some farmers wanting to farm had insufficient land and some land use right holders not wanting to farm had land together with its quota obligations.[16] Coupled with this imbalance was an irrational allocation of financial resources, with production team enterprises creating revenue surpluses (as high as 10 million yuan) that were not being

[12] In one village, 900 mu of rice field was farmed collectively by 18 employees of its agricultural development company. See "Guangdong Experiment Zone Office and Nanhai Experiment Zone Office, Experiment, Exploration, and Breakthrough [shiyan, tansuo, chuangxin]," STOCK SHARE SYSTEM, *supra* note 6, at 300.

[13] In another village, each of eight large-scale farmers had contracted 20 to 50 mu of land for growing rice and vegetables and raising fish. *See* "Shagao Village Party Branch, Pushing Forward Stock Share System and Alleviating Collective Poverty [tuixing gufen hezuo zhi, zhaidiao jiti jingji kunnan mao]," STOCK SHARE SYSTEM, *supra* note 6, at 274.

[14] The Nanhai JSCs learned about during the fieldwork have either been formed at the natural village level or at the administrative village level. The JSCs in both categories appear to be administered at the administrative village level. The JSCs in the former category, which have been formed at the natural village level, hold the assets of a single natural village. However, these JSCs are administered to some extent as a group at the administrative village level. The JSCs in the latter category have been formed as a single JSC at the administrative village level that holds the assets of more than one natural village. However, one administrative village formed an umbrella JSC as a holding company over five JSCs formed at the natural village level.

[15] The abolishment involves the above-quota obligations. The quota obligation has been retained, in the form of a tax, in an amount of 50 kilos of grain per mu of arable land.

[16] It is worthy of note that market economies traditionally resolve such resource imbalances by way of resource transfer among the holders of rights to the resources. Although Chinese law allowed for private transfers of land use rights, the insecure nature of these rights and lack of legal and institutional infrastructure to support such transfers stymied the development of a market in rural land use rights.

used efficiently. A "demand" for agricultural commercialization and scale farming in Nanhai also convinced local officials that the HRS be abandoned as the basic production mode. Finally, a goal of "integrating the urban and rural areas and populations" across Nanhai was seen as another impetus for the JSS.

Two primary approaches have been used to establish the Nanhai JSCs:

1. All land and other assets of production of the administrative village or natural village are appraised and then contributed to the JSC. Then shares are issued to individual farm households based upon the appraisal of contributed capital. About 40 percent of the Nanhai JSCs take this form.
2. Land only is contributed to the JSC and (up to 10) shares are distributed to each member on the basis of the following scheme:
    - Basis shares: all members of the production brigade receive some number.
    - Land contracting shares: issued on the basis of years that an individual has actually contracted land for agricultural production since the inception of the HRS.
    - Labor contribution shares: depends upon the age of the individual.

Lacking a single countywide standard, there are (in theory) two ratios of available shares issued pursuant to this tripartite scheme (4:3:3 or 3:4:3). About 60 percent of the JSCs are land-only ventures.

Before proceeding with the JSS, the municipal government conducted an information campaign to familiarize brigade members[17] with the system. Then the brigade cadres developed initial plans. The plans were publicized and comments were received. Then a two-thirds majority approval was obtained. Following approval (out of 1937 production teams,[18] only two failed to adopt the JSS), the land and other assets (in some cases) were contributed to the JSCs. In theory, dissenting voters were permitted to retain a parcel of land, but nobody is reported to have done so. Share allotment calculations were then done at the brigade level, but the county was available to and did assist with the effort. Contributed capital land can be withdrawn from the JSC by a two-thirds vote of all shareholders. No shareholders have so voted, and no brigade or production team has reversed the decision to form a JSC.

A Shareholders' Representative Conference, composed of one representative from each household (the head of the household), was then formed, and the Conference elected a JSC Board of Directors. A Monitoring Council was also created by the vote of the Representative Conference. Two-thirds of the Council members must be JSC shareholders. Finally, the Conference adopted JSC bylaws.

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[17] County officials that provided the briefings used "brigade" or "brigade members" to refer to the administrative village and the residents of what is now an administrative village, respectively. Where these terms are used in this text, they refer to the administrative village level.

[18] County officials that provided the briefings used "production team" to refer to the natural village and the residents of what is now a natural village, respectively. Where this term is used in this text, it refers to the natural village level.

Rights of shareholders are limited to receiving dividends. The shares cannot be transferred, mortgaged, bequeathed, inherited, or sold. Shares are reclaimed upon the death of the shareholder. Newborns and other qualifying new entrants to the village receive their shares at no cost. Shareholders are not seen as owners, but rather as holders of contract rights. Distributed share totals are periodically readjusted to take account of changes in household size.

One exception to the transferability limitations exists in the fewer than six percent of the JSCs that have adopted a "no-readjustment-of-share-distribution" approach. Here, shares can be transferred, bequeathed (even outside of the brigade), and mortgaged. Holders of these shares are seen as true owners. New entrants to the brigade can purchase basis shares (up to 3 or 4 depending upon which distribution ratio was selected).

Officials do not view any specific Chinese law as governing the formation and operation of the JSCs (including the Company Law or the TVE Law).

JSC land (both agricultural and commercial) is allocated through auction. The use and auction plan is first distributed to villagers. If parcels do not receive interest from villagers, they will be made available to others outside the village. Parcels are generally created by viewing the land as either divisible or non-divisible. Divisible land is made into plots by the JSC Board of Directors on the basis of the number of interested applicants, but this approach is not followed absolutely. Lease terms for agricultural land are generally three to five years. Land in orchards is leased for 10 to 15 years.

Gross average countywide statistics were provided by county officials, including:

- Arable land per capita is 0.5 mu
- Average dividends per individual shareholder are greater than 700 yuan per year
- Average dividends per individual laborer are more than 1,000 yuan per year
- Total dividend pool is about 500,000,000 yuan per year

Nanhai officials claim that the following benefits have been created by the formation of the JSS:

- JSS has helped to promote rational sectoral development (agriculture, industry, and services) by moving resources to the better producers within each sector and by moving labor from agriculture into the other two sectors.
- JSS has helped to impose enforceable rules at the village and individual level by creating the prospect of cutting off dividend payments if wrongs are committed.
- JSS Induces better performance by managers because more attention is being paid to economic performance.

Officials see the next step in the JSS development to be free transferability and inheritability of all shares. To date, a lack of individual share value information has dampened shareholder

requests for transferability and has prevented significant trading of the shares that are permitted to be transferred (under the "no-readjustment" approach).

IV. FIELDWORK

A. Description of Fieldwork and Methodology

Our fieldwork in Nanhai Municipal County was a part of our 22nd round of fieldwork in rural China. Previous fieldwork was conducted in ten other provinces and one provincial-level municipality. Two types of interviews were conducted in Nanhai: (1) pre-arranged briefings/interviews with brigade leaders and JSC representatives; and (2) interviews of farmers selected by the RDI team.

In Nanhai, as elsewhere in China when interviewing farmers, we employed Rapid Rural Appraisal methods in our research.[19] Although we selected the farmers or households to be interviewed (and tend to discount results gathered during interviews arranged by officials), the survey was not a scientifically randomized sample survey. To maximize candor, we selected the interviewees and tried to avoid having local officials present during farmer interviews. We were not entirely successful at achieving the latter. We used a basic, flexible, and adaptive set of questions for interviews. Interview questions were based not on a questionnaire, but a checklist of issues. We occasionally did not address all checklist issues in an interview, and sometimes departed from the basic questions to pursue interesting, unexpected, or new information.

B. Fieldwork Observations

Only to the extent that information obtained from local representatives or cadre and JSC representatives varied from information provided by county officials or provided new insights is it reported in this section. Information obtained from farmers and farm households is provided in more detail.

Non-agricultural employment and income were the rule in the villages and JSCs visited during the fieldwork. Several officials reported that only about 20 percent of average per capita yearly income comes from agriculture. Of farmers interviewed, about 60 to 80 percent of the household members (that is, 2 out of 3, 4 out of 5, and so on) were engaged in non-agricultural employment. One farmer said that the majority of those in his village had non-agricultural employment and that few farmers were engaged solely in agriculture.

Actual villager participation in the decision to establish JSCs was less marked than the participatory process described by both county and local officials. Fifty percent of farmers interviewed reported that they received a simple notification from brigade leaders or local

[19] For a discussion of Rural Rapid Appraisal, *see* Robert Chambers, "Rural Appraisal: Rapid, Relaxed and Participatory," Institute of Development Studies Discussion Paper 311 (Oct. 1992); and Chambers, "Shortcut and Participatory Methods for Gaining Social Information for Projects," in Michael Cernea, ed., *Putting People First: Sociological Variables in Rural Development* (1991).

cadres that the land assets were going to be contributed to JSCs in exchange for shares.[20] Forty percent of farmers interviewed said that there was discussion and an opportunity for consensus. However, no farmer interviewed said that an actual vote was conducted.

The potential for the transfer of shares was in keeping with the levels of transferability of shares reported by county officials (and described above). Only two JSCs (operated cooperatively within a single administrative village) reported that shares could be transferred and inherited, and no transfers had yet occurred. Here, shares could be purchased by new wives coming from outside the JSC villages (up to 4 shares) and on behalf of newborns (up to 5 shares) at a price of 50 percent of the 6,000 yuan per share "value" price. Share transfer is limited to the confines of the administrative village. Inheritance can go outside the village. The system of transferability had been in effect for about a year. However, a farmer/shareholder of one of these JSCs who we interviewed did not know that the shares could be transferred and did not believe that the right to bequeath and inherit would last.

Another JSC is planning to introduce a mechanism to make shares transferable and inheritable. Two classes of stock will be created: "A" shares will represent equity in land, and "B" shares will represent non-land assets. The latter shares will be fully transferable within the village (with village leader approval). When the death of a buyer occurs, there will be a forced sale to the JSC. When a seller dies, the shares will remain with the buyer (as long as approval was obtained for the original transaction). Inherited shares presumably will remain with the recipient and will be subject to further bequest.

Total available agricultural land held by all examined JSCs (which includes both arable land and fishponds) has significantly declined from the time of formation of the JSCs to the date of the fieldwork. Reductions in total available agricultural land ranged (amongst groups of JSCs) from eight percent to 65 percent. There were losses of over 25 percent of the total agricultural land controlled by the JSCs in four out of five of the administrative villages visited, and there were losses of over 30 percent in three out of five of the administrative villages visited.[21] Lost agricultural land was primarily converted to commercial/industrial and government (offices, roads, and other infrastructure) uses. One farmer complained that a 50 mu agricultural parcel near the road was taken out of agricultural use, leveled for commercial use, walled off, and

[20] One farmer, after telling interviewers that there had been nothing more than a notification, said, "there is no reason to vote because it would happen anyway."

[21] Of two JSCs (holding the assets of two natural villages) administered by an administrative village visited in Lishui Township and holding 2,050 mu current total agricultural land, there was a 38 percent reduction. Of five JSCs (holding the assets of five natural villages) administered by another administrative village visited in Lishui Township and holding 1,350 mu current total agricultural land, there was a 25 percent reduction. Of one JSC (holding the assets of four natural villages) administered by an administrative village in Luocun Township and holding 1400 mu current total agricultural land, there was a 30 percent reduction. Of one JSC (holding the assets of one natural village) administered by an administrative village visited in Pingzhou Township and holding 180 mu current total agricultural land, there was a 65 percent reduction. Of 14 JSCs (holding the assets of 14 natural villages) administered by an administrative village visited in Yanbu Township and holding 3400 mu current total agricultural land, there was an 8 percent reduction.

remains vacant and unused after a year.[22] Other farmers complained generally about the amount of agricultural land converted to commercial/industrial use.

The status and existence of allocated private plots varied widely in the JSS areas visited. Under the JSC varieties noted during fieldwork, some JSC household members are allocated private plots, while other household members subject to different JSCs do not receive plots. It is unclear whether the village administration or the JSCs make these allocations. Of those that receive an allocated plot, the allotment varies from 0.04 to 0.20 mu per household member. Corresponding pre-JSS, HRS agricultural land allocations were 1.3 mu (for the household members that now receive 0.04 mu) and 0.8 mu (for the household members that now receive 0.20 mu). Some plots are allocated without rent payment expectations, while others have yearly rents. All must pay agricultural taxes in the form of a quota. One farmer paid rent at a rate equivalent to 150 yuan per mu per year for his allocated plot. Another paid a quota tax on both the allocated plot and on farmland that had been contributed to the JSC and subsequently used for other purposes. Terms for allocated plots ranged from indefinite lengths (farmers did not know) to 5 years. Those having plots with fixed terms expected readjustments according to changes in household size at the end of the term. One JSC allocates 150 mu of its basic farmland at the ratio of 0.2 mu per adult and 0.1 mu per child. The rent is at a rate equivalent to 500 yuan per mu per year for a term of 2 years (at which time there is a readjustment). If the allocation is declined, a payment equivalent to 600 yuan per mu per year will be given to the declining household.

The size, value, and terms of agricultural land leases between JSCs and farmers also varied widely. Two JSCs contract agricultural land to farmers under the existing Household Responsibility System contract terms (until the end of 1999), at which time there will be competitive auctions.[23] The new lease terms will be "kept short" (3 to 5 years) since the land has been designated for commercial construction. Another group of JSCs contracts the land out for 3-year terms, with some auctions used if more than one farmer desires a particular plot. The largest farmer leases 10 mu, while the smallest leases 0.1 mu. Yet another JSC leases land for 5-year terms to the highest bidder, although villagers have preference over bidders from outside the village. Here, the largest farmer leases 40 mu, while the smallest leases 1 mu. Others contracted the land to the highest bidder regardless of where the bidder was from. One farmer rents 7 mu for 400 yuan per mu per year. The term is 2 years. Another farmer rents 5 mu (outside of his village) for 400 yuan per mu per year. Rent costs in his own village are 200 yuan per mu per year for lower quality land.

One JSC operates its total of 800 mu of grain farmland as a collective farm that employs eight hired laborers. About 4 million yuan have been invested to purchase or fund three hand tractors, three harvesters, two rice dryers, a warehouse, and irrigation improvements. This

[22] In the field next to this walled-off parcel is a sign erected by the Deng Gang Administration District, saying "Agricultural Land Protection Zone on the Sides of the Road."

[23] One farmer, when asked whether he prefers the upcoming opportunity to bid on agricultural land or whether he simply would like to have his existing HRS use right extended for 30 years, said he would prefer to have a 30-year use right. He added that he would not be bidding for agricultural land when the HRS contracts expire at the end of 1999.

investment represents about 5,000 yuan ($606) per mu (equivalent to 75,000 yuan or $9,090 per hectare). No information was obtained about labor costs, yields, or rice sale prices.

The value and terms of commercial/industrial land use transactions between JSCs and non-shareholder users varied widely as well. There seemed to be no standard under which these transactions were conducted. Some prices quoted indicated that land use rights were being sold in perpetuity. Prices ranged from 150,000 to 667,000 yuan per mu for "sale" of commercial use rights. The representative of one JSC said that "sales" of over 10 mu had to be approved by the shareholder representatives, while less than 10 mu could be sold upon approval of the board of directors. One JSC leader said that purchase in perpetuity was illegal, and that the new "land lease law" limits leases to 20 years. Another said that land would need to be converted to state land before a sale of use rights in perpetuity could be made. Lease rates ranged from 10,000 to 65,000 yuan per mu per year. Lease terms varied from 10 to 30 years. One JSC representative said that, although lease terms were up to 10 years, lease prices were adjusted every 3 years.

JSC value of contributed capital, revenue, costs, and funds available for distribution as dividends were difficult to assess because financial data obtained from JSC representatives and farmers were inconsistent and incomplete. For example, one JSC representative (representing 6 production teams, the assets of which were contributed to two JSCs in 1994) indicated that land valuation for purposes of calculating contributed capital was highly arbitrary. He reported that farmland within 200 meters of the road was valued at 25,000 yuan per mu, "second class" land was valued at 18,000 yuan per mu, and "third class" land was valued at 13,000 yuan per mu. Yet this same representative also reported that the "sale" of contributed land for an industrial use would bring in between 150,000 and 350,000 yuan per mu.

These JSCs had converted 800 mu of agricultural land to commercial/industrial uses. Of the 800 mu, 300 mu had been dedicated to township government executive buildings, factories, and roads. The remaining 500 mu had been used for natural village takings for factory buildings, brigade takings for factory buildings, selling use rights to outsiders for factory buildings, leases to outsiders for factory buildings, and residential foundation plots (60 mu).

Presuming that even just 50 mu had been sold outright for 200,000 yuan per mu, and that another 150 mu had been leased for 25,000 yuan per mu per year, the revenue yield would be 13,750,000 yuan during the year that the 50-mu sale was made. If only the lease transaction had occurred in a fiscal year, the yearly rental yield would have been 3,750,000 yuan. In 1998, 3 million yuan was distributed to the 11,000 shareholders. There were no reports of significantly higher dividend totals in prior years. This example serves to show the difficulty in drawing conclusions from the financial information obtained during the interviews.

There were discrepancies between financial information gathered from the JSC representatives and from interviewed farmers. For example, the JSCs referred to above purportedly made a cash distribution (over a 2-year period) to farmers from the administrative village that contributed higher-value land to the JSCs' capital (so as to level out the value of the contributions). However, a farmer interviewed from this village said that he had never received the promised 2,000 yuan payment that he was due.

In any event, it seems that detailed accountings and financial statements are not distributed by the JSCs to the shareholders. No interviewed farmer indicated that he had received detailed information about revenues, costs, assets, or funds available for dividends. One farmer explained that her JSC had periodically published a "balance sheet" but that no shareholder was certain of the accuracy or adequacy of the reported information. When providing an explanation for lower yearly dividends than had been received in the past, the JSC attributed the performance to higher electricity costs created by electricity theft, road construction, and the need to hire security forces across the village. When asked whether she understood that road construction would increase the value of leased commercial land (and JSC revenues), she indicated she was unaware of this investment-to-value relationship.

Shareholder dividend amounts varied amongst the JSCs, which appears reasonable because the JSCs used a variety of share distribution schemes (that varied from the approaches described by the county representatives) examined. For this reason, specific observations related to yearly dividend amounts would be uninformative. However, several shareholders made general comments about the dividend distributions that are worth noting. For example, one farmer/shareholder said that, given a choice between a higher allocation of household production land and dividends, he would prefer more land. Another farmer said that he fears that a 16 million yuan debt taken on by the village for schools, roads, and corruption will lead to suspension of dividend payments. Another farmer/shareholder (in a different JSC) said that current dividends were low because the JSC had made a poor investment in clearing and preparing commercial sites that now remained unrented.

It is worth mention that RDI researchers had previously seen the stock share system in one administrative village of Ningde City in Fujian Province in 1995, two years after its adoption. The village was close to an urban center, and had experienced many land takings for non-agricultural purposes before the introduction of the stock share system. Ningde City's overall land plan, as of 1995, placed the village's land within a designated tourism and trade area. Seventy percent of resident workers in the village had non-agricultural jobs.

We did not conduct farmer interviews in this village, but the description of this stock share experiment by local officials gave rise to many of the same concerns we have as to Nanhai. In particular, all village arable land was contracted out on an auction basis to the highest bidder, on one-year contracts, with the successful bids ranging from the equivalent of about 15 to 25 percent of the crop produced on the land. The company had the power to sell any of this land for non-agricultural purposes and expected that the biggest revenue source would be selling agricultural land for non-agricultural purposes, especially villas for wealthy people. These had not yet been sold by the company as of the time of our visit. We were told in 1995 that the current market price for developed residential land (with infrastructure) was 300,000 yuan per mu, although without development it was 50,000 yuan per mu. Villagers would be able to sell their shares (to the company or other villagers) after three years, and during the first three years were to receive 200 yuan per mu contributed. After three years, the farmers were to receive, apparently, 42 percent of company profits.

While, at least according to local officials, the farmers who contributed land rights seemed to have somewhat more control and more specified and transparent arrangements as to profit

distribution than we found in Nanhai, there were at least four negative factors similar to those in the Nanhai experiment, or perhaps even worse. First, seventy percent of village households had given up all land except their foundation plots. Second, rights to all arable land were auctioned at prices equivalent to far more than the legal limit on taxes and fees (that is, by characterizing revenues as "auction fees" the company could get around the supposed limit on taxes and fees to five percent of farmers' incomes). Third, rights to arable land were very short-term. Finally, the goal was to sell off as much agricultural land as possible for non-agricultural projects.

V. ANALYSIS AND RECOMMENDATIONS

The fieldwork results from Nanhai Municipal County suggest how the JSS and JSCs in Nanhai County, to the extent that the County is committed to their perpetuation, might be improved. We offer analysis and recommendations on five issues.

A. The Purpose of the Joint Stock System

It is evident that the purpose of the JSS (at least in Nanhai) should not be viewed as one of improving access to agricultural land, improving agricultural production, or improving the efficient use of agricultural inputs, or accurately compensating farmers for the market value of their use rights to land. Rather, the purpose of Nanhai's JSS is clearly one of facilitating the conversion of agricultural land to non-agricultural uses. This purpose was expressly stated by county and local representatives and confirmed by fieldwork observations. And the effort has been successful--total agricultural land has decreased as it has been converted to industrial/commercial uses.

Access to agricultural land has declined as this conversion has progressed. The decline is evidenced by the small allocated private plots, the increase in non-agricultural employment, and the dwindling supply of agricultural land available for lease from the JSCs. There is simply less agricultural land available in Nanhai, and some of the remaining land has been put to use by collectively managed farms and (reportedly) by scale farmers.[24] The single collectively managed farm (of 800 mu) noted during fieldwork, having received a per mu investment of about 5,000 yuan (75,000 yuan, or over $9,000, per hectare), is heavily subsidized and clearly not replicable.[25]

There was no evidence that agricultural production per unit of land had increased. In many cases, the character of production has changed from the primary production of grain to a combination of growing flowers, nursery stock, vegetables, and grain. With the advent of these new crops, changes in production yields simply cannot be determined. Tenure security for farmers has decreased as the HRS lease terms have expired or been cut short and been replaced by the shorter JSC lease terms of 3 to 5 years. These shorter terms will reduce the incentive to improve the land (relative to the 30-year use terms provided for in the Land Management Law), and could, in fact, prompt lessees to degrade the land in an attempt to obtain the highest short-term yields with the least possible investment.

[24] It is notable that no other scale farmers were observed to be using the land held by the JSCs that were reviewed by the RDI team. Of the farmers interviewed that did rent land from the JSCs, none currently rented more than 7 mu. One JSC representative said that one farmer rented 40 mu but that most rented plots are 3 to 4 mu.

[25] As well, such a farm may not be sustainable if similarly high levels of investment are required over the long term as purchased equipment and improvements come to the end of their useful lives.

Given these conclusions, it is recommended that local, provincial, or central state officials not regard the JSS experiment in Nanhai as an agricultural experiment. The JSS experiment in Nanhai should be seen as an economic conversion and development effort.

B. Public Participation and Ability to Opt Out

Fieldwork showed that public information about, participation in, and ratification of the decision to form JSCs was substantially less than that depicted by officials and representatives. A participatory process, though short of that described by these spokespersons, was carried out in only about half of the households examined during fieldwork. It also appears that the option of opting out of JSC shareholder status and retaining agricultural land was not an authentic choice. That, out of 1937 production teams, only two failed to adopt the JSS, may indicate that the JSS was more imposed than adopted. It is recommended that a more thorough participatory and consensus-seeking process accompany future reforms, and that options for opting out be made real and workable.

C. Transferability and Inheritability of Shares

Transferability and inheritability of shares remains limited, although officials reported that increased transferability and inheritability are desirable and anticipated. The current lack of transferability makes it difficult to route resources into the hands of those most capable of efficiently using them. The current inability to mortgage shares makes it difficult or impossible to borrow larger amounts of capital (for equipment purchase, perhaps). In any event, mortgage is made impossible because lenders would simply be unwilling to accept shares as collateral without transferability and the resulting unpredictability of value. The lack of inheritability also works to limit efficient resource transfer and the opportunity to create and pass along a legacy that might fund the desires of younger family members to invest in capital-starved enterprises. It is recommended that the rights of transfer, inheritance, and mortgage be legally established. It is also recommended that measures be undertaken to increase the certainty of JSC share value, including an end to the readjustment of share totals and an increase in JSC reporting requirements and monitoring efforts. The increased certainty should also spark increased investment and productivity.

D. Allocated Plots

The inconsistent status of allocated private plots has limited an otherwise valuable opportunity for families to produce food for household consumption or for sale on informal markets. Allocated plots have typically fulfilled significant household consumption needs in China, or have produced valuable commodities that can be sold within the many informal markets that exist throughout most areas. Past fieldwork has shown that even moderately small plots can yield important household benefits. However, under some current JSC allocations, a family of four may only qualify for a 100 square meter plot. In any case, it is recommended that

household production plots be offered to those households that desire to cultivate them. The plots should be made available at no or nominal cost. It is only when the plots are almost universally refused by households (because labor can more productively be spent elsewhere) that the plots should be deemed no longer desirable.

E. Controlling Law

Officials reported at all levels that they were unaware of any body of law that controlled the formation or operation of the JSS or JSCs. This lack of controlling regulation has resulted in many inconsistencies and voids. Inconsistent or lacking areas of law concerning JSC formation and operation include public participation requirements, capital valuation, share designation and distribution, JSC management and accountability, land sales and leasing, financial operations and reporting, and dividend distribution. The central government should promulgate governing regulations to address these areas. Moreover, provincial governments should periodically undertake operational and financial audits of selected JSCs. Directing attention to financial reporting requirements would likely create significant rewards because JSC shareholders, if provided with meaningful and complete financial data, could serve to police abuses and poor management.

VI. CONCLUSIONS

The Nanhai experiment appears to be primarily about facilitating land use conversion and non-agricultural economic development. Given that a central goal of China's rural land policy is to protect and preserve agricultural land, it would be an error to view the Nanhai experience as unduly informing rural land tenure reform activities. However, several specific conclusions can be drawn about the Nanhai JSS and experimental reform efforts in general:

1. The Nanhai experiment is in direct conflict with the mandates and fundamental process set forth by the 1998 Land Management Law (LML). First, the experiment fails to provide, under contract, farmers with secure, 30-year use rights, as required by the LML. To the contrary, use terms have been shortened. Second, the experiment fails to limit the conversion of agricultural land to non-agricultural uses, as required by the LML. To the contrary, conversion has been a cornerstone of JSC operation. Finally, the experiment fails to seriously require JSCs to designate agricultural land as "basic" farmland, as required by the LML. The Nanhai experiment (and any other similar experiments) should be reconciled with the LML.

2. The Nanhai experiment provides no evidence that scale farming achieves any benefits over the cultivation of smaller plots. In fact, the only observed scale farm was not replicable and probably not sustainable. Administrative imposition of scale farming should be avoided, and transitions to larger and more-capital intensive farms should be gradual, voluntary, and market-driven.

3. Transferability of resources in response to healthy economic markets (but subject to reasonable public policy limitations, such as land use and preservation plans) should be nurtured. Market economies traditionally resolve resource imbalances by way of resource transfer among the holders of rights to the resources. Although some Chinese law allows for private transfers of land use rights, the insecure nature of these rights and lack of legal and institutional infrastructure to support such transfers has stymied the development of a market in rural land use rights. Constraints on transferability can serve to constrain the efficient use of resources. Transferability of many resources in China should be made legal, and the certainty of resource value should be increased.

4. Local governments would probably benefit (over the long-term) from being candid about the intents and purposes of reform efforts. The credibility gained in the eyes of citizens (and the reduction of general skepticism) would likely outweigh the discrete effects of disagreement, debate, and modification. The actual reasons for and goals of reform should be candidly made public.

5. Planned public information, participation, and consensus efforts should be thoroughly and wholeheartedly implemented. Again, the benefits of credibility and public input would likely outweigh the costs of skepticism and dissent. More thorough participatory and consensus-seeking processes should accompany future reforms, and options for opting out should be made real and workable.

6. Detailed laws, regulations, and procedures should accompany the implementation of reform efforts. The existence of such laws will reduce inconsistency (and create efficiency-

producing certainty), ease implementation, and reduce corruption. Most reform efforts would profit from meaningful reporting and monitoring requirements.

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